



Kentucky Retirement Systems
Audit Committee of the Board of Trustees

Charter

Effective Date: September 12, 2019

Table of Contents

Page No.

1) <u>The Charter</u>	3
2) <u>Purpose</u>	3
3) <u>Authority</u>	3
4) <u>Composition</u>	4
5) <u>Meetings</u>	4
6) <u>Responsibilities</u>	5
<u>Financial Statements</u>	5
<u>Internal Control</u>	5
<u>Internal Audit</u>	5
<u>External Audit</u>	6
<u>Compliance</u>	6
<u>Reporting</u>	6
<u>Board of Trustee Elections</u>	6
<u>Other</u>	7
7) <u>Responsibilities of Other Parties</u>	7
8) <u>Approvals</u>	7

AUDIT COMMITTEE OF THE BOARD OF TRUSTEES

1. The Charter

This Charter establishes the authority and responsibility of the Audit Committee of the Board of Trustees (Board) of Kentucky Retirement Systems (KRS).

2. Purpose

The purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities for the:

- Financial reporting process,
- System of internal control,
- Internal and external audit processes, and
- Process for monitoring compliance with laws and regulations and the code of conduct.

As defined by the Institute of Internal Auditors, internal auditing is *an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. The goal of internal auditing is to help the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.*

Consistent with this definition, internal auditing for Kentucky Retirement Systems can be defined as the *independent appraisal of the various operations and systems of control within Kentucky Retirement Systems to determine whether acceptable policies and procedures are followed, legislative requirements and established standards are met, resources are used efficiently and economically, planned missions are accomplished effectively, and the objectives of Kentucky Retirement Systems are being achieved.*

3. Authority

The Audit Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. The Audit Committee is empowered to:

- Appoint, compensate, and oversee the work of any registered Certified Public Accounting (CPA) firm employed by KRS;
- Resolve any disagreements between management and the internal or external auditor regarding financial reporting;
- Pre-approve the scope of all financial audit and non-financial audit services;
- Retain independent counsel, accountants, or others to advise the Audit Committee or assist in the conduct of an investigation;
- Seek and obtain any necessary information from person(s) employed by KRS (all of whom are directed to cooperate with the Audit Committee's requests) or external parties; and
- Meet with officers, internal and/or external auditor, or outside counsel as necessary.

4. Composition

The Chair of the Board shall name the chair of the Audit Committee and appointment of Audit Committee members. Audit Committee members shall serve concurrently with the appointing Chair of the Board.

The Audit Committee will consist of at least three (3) and no more than seven (7) Board members. A quorum to conduct business is satisfied if a majority of the Audit Committee members are present.

Each Committee member will be independent.¹ For the purposes of the Audit Committee, independent shall mean those individuals who do not report directly to KRS' management and those persons who are not directly responsible for the day-to-day operations of KRS.

At least one member of the Audit Committee will be designated as the "financial expert."² A financial expert is an individual who possesses, among other attributes:

- An understanding of generally accepted accounting principles (GAAP) - in this case, the accounting standards issued by the Governmental Accounting Standards Board (GASB) or the Federal Accounting Standards Advisory Board (FASAB) and financial statements.
- The ability to assess the general application of such principles in connection with the accounting for estimates, accruals, and reserves.
- Experience preparing, auditing, analyzing, or evaluating financial statements that present a breadth, depth, and level of complexity of accounting issues that can reasonably be expected to be raised by the government entity's financial statements or experience actively supervising one or more persons engaged in such activities.
- An understanding of internal control and the procedures for financial reporting.
- An understanding of audit committee functions.

As needed, the KRS Bylaws indicate the Audit Committee Chair may select members of the Audit Committee to form a Hazardous Duty Subcommittee to review participating employer requests for Hazardous Duty employment position classification requests that are submitted to KRS.

5. Meetings

Audit Committee meetings must comply with Kentucky's Open Meetings Act contained in Kentucky Revised Statute Chapter 61. The Audit Committee will meet at least four (4) times a year, with authority to convene additional meetings, as circumstances require. All Audit Committee members and the Internal Audit Director are expected to attend each meeting. The Audit Committee will invite members of management, auditors, or others to attend meetings and provide pertinent information, as deemed necessary. The Audit Committee will conduct

¹ Black's Law Dictionary, Sixth Ed. (1991) (p.520) defines "independent" as "not subject to control, restriction, modification, or limitation from a given outside source."

² See Sarbanes-Oxley Act of 2002 § 407.

closed session meetings with auditors and Executive Management when legally authorized under Kentucky's Open Meetings Act. Meeting agendas will be provided to Audit Committee members, along with appropriate briefing materials. Minutes will also be prepared and approved by the Audit Committee.

6. Responsibilities

The Audit Committee is responsible for the following activities:

Financial Statements

1. Review significant accounting and reporting issues, including accounting policies, practices, judgments, estimates, significant transactions, adjustments, unusual items, complex issues, and business arrangements.
2. Review recent professional and regulatory pronouncements and understand their impact on the financial statements.
3. Review with management and internal and external auditors the results of audits, including any difficulties encountered.
4. Review the annual financial statements and consider whether they are complete, consistent with information known to Audit Committee members, and reflect appropriate accounting principles.
5. Review other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.
6. Review with management and the external auditor all matters required to be communicated to the Audit Committee under generally accepted auditing standards.
7. Understand how management develops interim financial information and the nature and extent of internal and external auditor involvement in that information.
8. Review interim financial reports with management and the external auditors before filing with regulators and consider whether they are complete and consistent with the information known to Audit Committee members.

Internal Control

1. Evaluate the effectiveness of the internal control system, including information technology security and control.
2. Understand the scope of internal and external auditors' review of internal control over financial reporting and obtain reports on significant findings and recommendations, together with management's responses.

Internal Audit

1. Review with management and the Internal Audit Director the Charter, plans, activities, budget, staffing, and organizational structure of the internal audit function. Annually, review and approve the Internal Audit Charter, Audit Plan, and Internal Audit Budget.
2. Ensure there are no unjustified restrictions or limitations placed on the Division of Internal Audit Administration by KRS management in relation to the completion of audit projects.

3. Review and approve the appointment, dismissal, and replacement of the Internal Audit Director. Review and approve the salary for the Internal Audit Director with the understanding that final salary approval is at the discretion of the Governor.
4. Evaluate the effectiveness of the internal audit function, including compliance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.
5. On a regular basis meet with the Internal Audit Director, including closed session discussions, pursuant to Kentucky's Open Meeting Act in KRS Chapter 61.

External Audit

1. Evaluate the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
2. Evaluate the performance of the external auditors and exercise final approval on the appointment or discharge of the auditors.
3. Evaluate and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and KRS, including non-audit services. Discuss the relationships with the auditors.
4. Annually, meet separately with the external auditors to discuss any matters that the Audit Committee or auditors believe should be discussed privately.

Compliance

1. Evaluate the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
2. Review the findings of any examinations by regulatory agencies and any auditor observations.
3. Evaluate the process for communicating the code of conduct to personnel and for monitoring noncompliance.
4. Obtain regular updates from management and legal counsel regarding compliance matters.

Reporting

1. Regularly report Audit Committee activities, issues, and related recommendations to the Board.
2. Facilitate open channels of communication between internal auditor, external auditors, and the Board.
3. Review any other reports issued by KRS that relate to Audit Committee responsibilities.

Board of Trustee Elections

1. Review and approve election policies.
2. Review and approve changes to candidate applications.
3. Review and approve election memorandums prepared by Division of Internal Audit Administration staff.
4. Present results of elections to the Board.

Other

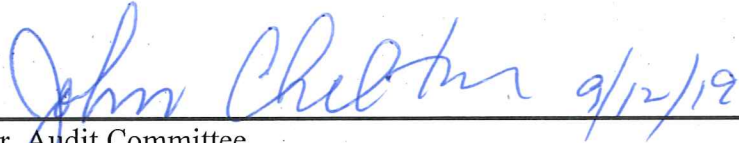
1. Perform other activities related to this Charter as requested by the Board.
2. Institute and oversee special investigations, as needed.
3. Review and assess the adequacy of the Audit Committee Charter annually. Request Board approval for proposed changes and ensure appropriate disclosure as may be required by law or regulation.
4. Confirm annually that all responsibilities outlined in this Charter have been completed.
5. Evaluate the Audit Committee's and individual members' performance on a regular basis.

7. Responsibilities of Other Parties

- The independent auditor is responsible for planning and conducting audits.
- Management personnel within KRS are responsible for preparing and fairly presenting the KRS financial statements in accordance with GAAP, maintaining effective internal control over financial reporting, and ensuring KRS complies with applicable laws, regulations, and other requirements.

8. Approvals

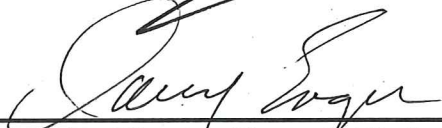
We, the undersigned of the Kentucky Retirement Systems, do certify that this Charter was approved by the Board of Trustees on September 12, 2019.



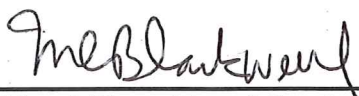
Chair, Audit Committee



Chair, Board of Trustees



Executive Director, Kentucky Retirement Systems



Reviewed by Office of Legal Services